

FINANCE UPDATES

APRIL 2022

HOW DOES THE NICS INCREASE AFFECT YOU?

Brace yourself for this tax rise.

In a much-touted tax rise to fund additional NHS, health and social care spending, this April sees 1.25% added to National Insurance.

At face value, that seems pretty simple (if unwelcome, given all the other inflationary pressures) for those who pay National Insurance. But scratch a little below the surface and we see that it is more complicated than first meets the eye.

NATIONAL INSURANCE AND INCOME TAX

Yes, despite the name, National Insurance is a tax – one that works in a similar way to income tax, but with some key differences.

Firstly, it's payable on employed and self-employed earnings, but not other forms of income like income from savings, investments and pensions.

Your payment record (although not the amount you paid) is linked to the state benefits you can receive. There are exceptions to protect the entitlement to state benefits for a wide range of people, including parents not working and those with certain disabilities who cannot work.

As with the income tax personal allowance, there is a lower earnings limit below which you are not compelled to pay National Insurance.

But there is also an upper limit above which the National

Insurance rate drops (rather than rises, as it does with income tax). Employers also have to pay National Insurance on the wages they pay their staff.

And it's also worth noting that those over state pension age do not have to pay National Insurance.

THE HEADLINE RATES OF NATIONAL INSURANCE THIS APRIL

There are several ways in which the Government collects National Insurance and different rates depending on the type, but the three main channels are:

If you are employed – Your main rate has been 12%, and from 6 April rises to 13.25%. If you have earnings which exceed the upper earnings limit, you have been paying 2% on the amount above the threshold and from 6 April it's 3.25%.

If you are self-employed – Your main rate has been 9% and from 6 April rises to 10.25%. If you have profits which exceed the upper profits limit, NI on this has been 2% and from 6 April it's 3.25%.

If you are employed, your employer's situation is – They have been paying the 13.8% standard rate on your earnings which exceed the secondary threshold. After 6 April they will pay 15.05%. There is no upper threshold to reduce their liability.

As announced in Spring Budget 2022, the threshold at which workers start paying National Insurance contributions will also rise to £12,570 from 6 July.

This, combined with the freezing of income tax thresholds, will have mixed results for people depending on their income. The Institute for Fiscal Studies predicts those earning between £10,000 and £25,000 a year will pay less tax on their earnings in 2022/23, while those earning more will pay more tax.

EMPLOYEES

Before 6 April, if you are employed, you start paying the main National Insurance rate when your weekly earnings rise above £184 (£797 per month). This is the primary threshold.

After 6 April, it rises to £190 per week (£823 per month). With all other things being equal, this would have the effect of a small tax cut, as less of your money is subject to National Insurance.

Then, after 6 July, this will rise again to £242 per week (£1,048 per month).

The upper earnings limit where the new 3.25% National Insurance rate comes into force is not changing this year. It is £967 per week (£4,189 per month).

Because this denotes a drop in National Insurance rates, if affected, this should have a positive effect on you: the band for the main rate of National Insurance is not creeping upwards, capturing more of your earnings at the higher rate.

EMPLOYERS

Before 6 April, employers pay employer National Insurance contributions when an employee's weekly earnings go above £170 per week. From 6 April this rises to £175 per week. As said previously, there is no upper limit.

While as an individual, the employer rate of 13.8% (rising to 15.05%) does not directly impact you, it may influence your employer's decisions about pay rises this year, or even other HR matters like redundancies.

SELF-EMPLOYED

Before 6 April, if you are self-employed, you start paying your main National Insurance on profits over £9,568. As the self-employed pay Class 4 NI on an annual basis at the end of the tax year, for the 2022/23 tax year it will rise to £11,908.

Just like for employees, the upper profits threshold at which point the new 3.25% National Insurance rate comes into force remains static at £967 per week. So as with employees, if relevant to you, this freeze should not be to your detriment.

OTHER NATIONAL INSURANCE CONSIDERATIONS

One of HMRC's straplines is that "tax doesn't have to be taxing", but quite frankly this doesn't ring true when you dive into the nitty-gritty of National Insurance.

What we have outlined is what is right for the majority of people, but be aware that there may be some nuance based on individual circumstances.

For instance, if you're a company director, you might wonder if you can avoid the rise by paying yourself more in dividends.

The Government thought of that one, however: the same 1.25% NHS, health and social care levy is being applied to the dividend tax regime.

Here's what this means. You are taxed on dividend income in line with your income tax band. The new rates for 2022/23 are:

- Basic rate: 8.75% (up from 7.5%)
- Higher rate: 33.75% (up from 32.5%)
- Additional rate: 39.35% (up from 38.1%)

WHAT CAN YOU DO TO PREPARE FOR THE 1.25% TAX RISE?

One option for sidestepping the rise is to consider making further pension contributions.

If you are a company director, paying these straight from the company will not attract any National Insurance, corporation tax or personal tax.

If you are employed, the way to achieve a similar effect would be to ask your employer to make the contributions through a salary sacrifice arrangement.

It is sensible to start budgeting for the tax rise. As the examples shown earlier demonstrate, it will likely reduce your take home pay by a few hundred pounds over the year.

And if you are employed, it may also make it harder for your employer to sign-off a pay rise.

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IMPORTANT INFORMATION

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